

Taylor Petroleum/Amarillo, TX - Account has grown from 98 stores to approximately 540 retail stores within the last month, with the purchase of a 51 store chain called Stop N'Shop in South Texas. They have also purchased TOC Retail, located in the Southeast US under the name of Majik Markets. At this time, the Amarillo office controls only 149 stores, with TOC Retail rolling into Taylor control during the 4th quarter. Headquarters for this chain will be in Houston, Texas. Currently, Philip Morris has the original 98 stores signed to an M1 agreement, full participation. UM Jerry Wylie is expected to sign the Stop N' Shop Stores to an M9 agreement, with all stores being renegotiated during the 4th quarter 1992 or 1st Qtr 1993, at which time, all 540 stores being controlled by Taylor.

Section 35 - 7-Eleven/Lubbock, TX (39 stores) - Signed Retail Masters full participation. This will involve the CVC program with RJR on the front of the register and PM on the hot side. Also accepted Marlboro 5 Pack, Texas Loot, Marlboro Summer Special, and B & H Special Kings.

Town and Country/San Angelo, TX (133 stores) - Signed Retail Masters, however, still concern over the Black and White issue. RJR is buying down Best Value at \$1.10 per carton, selling 73 CPW per store, or 39,000 CPM for the chain.

Friends/Lubbock, TX (28 stores) - Placing Marlboro signage on their pump topper for additional PM exposure. They are making an aggressive push in the subgeneric category. They are also reducing the price of Basic from \$1.75 per pack to \$1.45 and cartons from \$12.99 to \$11.39.

Minyards/Dallas - Retail Masters signed. Due to the variety of store layouts, POG's are being worked out at this time. This chain accepted B & H Kings, but declined the Marlboro 5 Pack Promotion.

V. SECTION/REGION EVENTS

PM Golf Invitational/Kansas City - This annual event was once again held at the Lock Lloyd Country Club, home of the Senior Masters Tour. It was a tremendous success, with many excellent contacts with upper level account management. As there are few such events in this area, we need to insure that this remains an annual partnership building opportunity.

Oklahoma State Fair/Oklahoma City - working the annual State Fair from September 18th through October 4th, with sampling and the Scratch and Win Game. UM Ralph Rayburn will coordinate scheduling of manpower at all events, to include the Marlboro Country Music Show on Sept. 24.

VI. ORGANIZATION/PERSONNEL

Nothing new to report.

VII. MISCELLANEOUS

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E LORILLARD

McKee Wholesale/Lubbock reported to Section 35 that Lorillard indicates they would be shipping most of their brands in 3M due to slow sales.

1. Promotions - Include:

Kent - \$2.50 - \$4.00 carton coupons, 25-cents to 50-cents off packs.

Newport - \$4.00 carton coupon; 50-cents off packs, B1G1F, B1PK/GFree Cap, Free T-Shirt w/1 PK.

Style - 25-cents off packs; \$1.50 & \$3.00 carton coupons, B1G1F w/20-cent coupon for future purchase. Section 32 reports Style offer of a 20 Ctn combo pack display, paying \$10.00 for temporary placement. This display was initially introduced in June as a 30-ctn combo. New displays have been sent out down-sizing this promotion, as sales are non-existent.

Old Gold and *True* - \$4.00 carton coupons

2. Merchandising/Fixtures - Nothing further to report.**IV. CUSTOMER DEVELOPMENT**

Section 31 - No new developments reported..

Section 32 - **McCarty-Holman/Jackson, MS** (99 stores) - Signed Retail Masters for M3 in 40 stores and M5 in 59 stores - full participation.

McLane Southern/Brookhaven, MS - As of July 31, 1992, this account is up 2.3% YTD.

Southern Oil Company/Collins, MS - Opened 5 convenience stores, signing Retail Masters M1 full participation.

Section 33 - **Easters/KC** (17 stores) - This supermarket chain signed to full participation in Retail Masters. Philip Morris gained Marlboro front-end displays in all stores, as well as exclusive permanent POS.

QuikTrip - SAM Linda Hadel obtained signed POG's for carton and pack fixtures, as well as counter sets for the Retail Masters Program, and is currently working on implementation details.

Section 34 - **Mapco/Tulsa, OK** - Cigarette sales up 12% overall. Retail implementation is being scheduled throughout the country for the Retail Masters.

QuikTrip/Tulsa, OK - 6 x 6 Marlboro 5-pack displays are in the process of being procured for immediate placement in QuikTrip stores.

Kwik Shop/Hutchinson, KS - has been signed as a full participant in Retail Masters.

Section 34 - **7-Eleven/Oklahoma City** - Signed Retail Masters full participation contract. SAM Karen Peterson is currently working on the first Flex Fund promotion, a Marlboro 3-pack promotion.

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REGION 4 MONTHLY HIGHLIGHTS AUGUST 1992

| I. | <u>VOLUME (8/31/92)</u> | <u>Month-to-Date</u> | <u>Year-To-Date</u> | % CHG vs. <u>Last YTD</u> |
|----|-------------------------|----------------------|---------------------|---------------------------------|
| | | | | |
| | Marlboro | 5,514 | 73,550 | -8.8 |
| | Full Margin | 8,067 | 104,106 | -7.8 |
| | Price Value | 2,836 | 25,655 | 10.6 |
| | Fvb | 2,063 | 12,937 | 100.0 |

II. PM USA BRANDS

A. New Products

B&H KINGS - While many chains in the Columbus, OH market are accepting the brand, they are reluctant to accept more than 10 cartons initially. The Louisville section has sold the brand into 193 of 218 accounts. A decision is pending for the remaining 25. Section management feels that the introduction would be more successful if all sections were afforded the promotions which are currently only available to select metro markets. In the Chicago section, all distributors have accepted brand. Rural markets are resisting the brand due to the underdevelopment of B&H 100's in these areas. Resistance to the brand is also evident in underdeveloped areas of the Minneapolis section (some of these accounts are accepting 1-2 cartons to test consumer reaction). In southern Minnesota, wholesale and chain acceptance is at 100%.

Retailers have expressed concerns about the necessity for another PLU key for the 40¢ OFF (this is in addition to the PLU key needed for the Merit Ultima 50¢ OFF offer).

There have been concerns expressed by district management regarding product shortages in the two lights packings.

MARLBORO MEDIUM 100's - A consumer survey conducted in the Columbus market revealed that Marlboro Lights 100's smokers who tried the brand did not like it because of its "strong" taste.

Distribution in the Detroit section is at 94% with 21 million units sold. Share has leveled off at 0.35. Reps in the Chicago section report that product is not moving well at retail.

MERIT ULTIMA - Sales at retail is slowing as promotional product runs out. In the Minneapolis section, sales increased with the 2 FOR 1 offer but declined again as the promotion expired. Wholesalers in the Cincinnati section report that orders have dropped an average of 1 carton per week per packing.

MARLBORO 5-PACK - In the Cincinnati section, concerns have been expressed about the hand-stamping of the box packing. Select distributors will be post-stamping effective October 1992. Hand stamping slows down this process. The \$3/case allowance is reportedly insufficient. The section suggests that this amount be doubled.

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C. Price Value

The ABC Price Reduction is nearing completion at retail, with many field sales force labor hours used to implement. "New Low Price" POS is needed to effectively communicate this message to the consumer. This should prove to be a very effective campaign to offset the competitive couponing activities at retail.

Cambridge - Cambridge sales are being severely affected due to the increased coupon activity on behalf of Doral. RJR has reduced their couponing activities to a maximum of \$3.00, yet Cambridge is at a competitive disadvantage in many cases as Doral has a lower wholesale price. Some Sections are targeting the top 5 packings with higher value coupons in order to offset competitors coupons. The Cambridge Mega Volume Defensive Program is offering \$3.50 coupons, after the already discounted manufactured \$2.10 per carton, which should prove effective in stabilizing the erosion of this brand family.

D. Famous Value Brands

Famous Value Brands (specifically *Basic* and *Genco*) continues to increase at the wholesale level upon acceptance of Retail Masters. The Retail Masters program has been the sole driving force in achieving the results year-to-date

American, Brown & Williamson and RJR are working their brands heavily, however, retailers report the consumer will try other brands, but come back to *Basic* due to the quality of the product.

Section 33 reports of a very high volume price value account (1000 CPW), The Four Aces/Omaha, NE, which only recently picked up our Black and White when they signed Retail Masters, indicated sales went from zero to the #2 Black and White brand, behind GPC. The account indicated they will discontinue Quality Seal brand as soon as they sell out the inventory.

III. COMPETITIVE ACTIVITY**A. R. J. REYNOLDS****1. Promotions -**

Doral - Section 32/New Orleans reports of instances in Little Rock market area of Doral being featured with a tag "Save Up To \$3.60", with smaller print indicating "Based on manufacturer's reduction". This includes a \$1.00 coupon and the \$2.60 manufacturer's reduction. This marketing scheme is also used with the package coupon which states, "Save Up to 51-cents", which is a 25-cent coupon in conjunction with 26-cents manufacturer's price reduction. These call outs are deceiving to the consumer, leading them to believe a larger coupon value is attached. RJR has placed heavy emphasis on this manufacturer reduction of \$2.60, continuing to use the retail community to force the wholesaler to pass this reduction along. Several wholesalers have expressed concerns, that with terms, it is a net reduction of only \$2.52.

Winston - Racing T-Shirt Free w/1 Ctn; B1G1F on Winston Select; Sunglasses Free w/3 pk on Select; Foster Grant Sunglasses Free w/3 Pks Winston Lights; Combination Cooler Bag &/Radio w/Ctn purchase in mega-volume accounts; 75-cents off 2 Pks; Small personalized radio w/Ctn; Flash Light free w/Ctn; \$1.00 off 2 pks.

Salem - \$3.00 carton coupons; \$2.00 off 5 pks; \$1.00 off 2 pks; Lighter free w/2 pks.

Camel - Featuring: Camouflage Hat w/3 Pks; Camouflage T-Shirt free w/4 Pks; B3G3F; \$4.00 off ctn cpns on prebooked orders at Smoke Shops of 100+ ctns; \$1.00 off 2 Pks.

Sterling/Magna - \$3.00 - \$6.00 carton coupons and 30-cents to 60-cents pack coupons.

Monarch - Brand is gaining widespread distribution and is being touted as the lowest priced cigarette---selling price at retail is between 69-cents and 89-cents per pack.

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Stop-In (42 stores) - Retail Masters tentatively accepted pending approval of our new OPM which will be installed in one store week of 9/7/92.

Super Fresh (52 stores) - System 2000 carton fixture implementation has been completed. There has been some discussion on changing package fixtures to checklane style. B&H Special will be accepted only when full price product is available.

Richfood, Inc. - Sales down 43% YTD. A big part of this is due to non-self service fixtures in Ukrops which have shown a decrease in sales to Ukrops by 35%+.

Pac & Sav (Raleigh District/3 stores) averaging 450 PM CPW. Signed Retail Masters.

Big D (Greenville District/12 stores) signed Retail Masters, replaced all RJR OPM's.

Amoco Food shops (Greenville District) signed Retail Masters.

Convenience King (Greenville District) signed Retail Masters.

Bee-Line (Greenville District) signed Retail Masters.

Oates Oil (Greenville District/10 stores) signed Retail Masters.

Morgan Markets (Greenville District/7 stores) signed Retail Masters and agreed with local Pepsi bottler to co-op on Marlboro carton promotion a free 12 pack with carton purchase.

Kroger - Nashville - A VS defensive program was initiated by SAM W. Oglesby utilizing 50¢ pack coupons to be placed by Kroger's secondary supplier. The result is a total of 2,100,000 units being sold. Retail Masters was also accepted by this account.

Stop-N-Go sold on using PM order guides in 31 locations. Basic on this month's Stop-N-Go banner board and sales are reported as great.

UM Marjorie English has signed all assigned accounts to Retail Masters and all accepted B&H Special Kings - totaling over 80 cases.

Chevron - UM Shaunise Hammond presented to Anthony Dittrich, Corporate Merchandiser, suggested POS item artwork that he praised and is taking to headquarters for approval and placement in their order guide. Chevron will actually produce these items (pump topper, dangler, cantilever) for their dealers to order and pay for. Decision should be made in September.

Country Cupboard (41 stores) - DAM Jim Ferebee sold account B&H Kings, Marlboro 5 pack with Party Lighter offer, Alpine Sunglasses display and implemented a special Bristol off carton/pack promo in all stores.

Eli Witt (Lake City GA) - SAM Ahna Still worked a Wholesale Masters program to force out at least one carton of all PM packings tracked on their Retail Service Level reports quarterly.

Racetrac - SAM LaDonna LaGod has worked with Gary Trentacosta to begin implementation of large Marlboro signage that is backlit and billboard-like that will stately designate "Marlboro Country".

The Atlanta District has successfully implemented a special VS Fashion Fling program at retail, with 450 cases of product, posters, and brochures advertising this event September 9th through 13th. PM personnel and customers will join about 50,000 consumers to shop and support AIDs research.

Section 24 reports signing have concluded regarding Retail Masters. They believe they accomplished original goals. Only "Key" account lost was Lil Champ in Jacksonville, FL but this was based more on personal rather than business decisions. Trying to develop an inventory maintenance program for Winn Dixie, if accomplished this will put Section 24 in good shape to develop total business in the future.

Southland Distribution Center - McLane has offered to purchase all distribution centers which service 7-Eleven Stores. SDC has also offered to supply PM S/R's with 6 months moving averages on full margin and price value PM product in support of our Retail Masters program. They have also formed a co-op of independent Amoco dealers in Florida with a membership projected at 200 locations.

McLane SunEast - because of confusion and time involved in tracking and processing "off invoice" promotions, effective 9/1/92 McLane will no longer reduce the price to retail on regular product. This does not include new brand introductions and trade show allowances.

Albertsons - during September, all stores will feature generic products "all lines" with special pricing and have requested all regular stock promotions be halted during this period.

Sun Mart Convenience Stores (Ocala, FL) - Retail Masters presentation is pending; management has requested to see springload fixture.

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REGION 5 MONTHLY HIGHLIGHTS AUGUST 1992

| <u>I.</u> | <u>VOLUME</u> | <u>MONTH</u> | <u>YTD</u> | <u>% CHANGE YTD</u> |
|-----------|---------------------|--------------|------------|---------------------|
| | Marlboro | 939.0 | 14,741 | -6.8 |
| | Full Margin | 452.5 | 5,873 | -5.8 |
| | Price Value | 415.2 | 3,587 | -0.3 |
| | Famous Value Brands | 328.6 | 2,172 | 37.4 |
| | TOTAL PM-USA | 1806.7 | 24,202 | -5.7 |

II. PM U.S.A. BRANDS

A. New Products

Marlboro Medium 100's

Retailers and distributors report that sales of 100's are initially slower than kings. Overall, distribution in retail accounts has stabilized.

B&H Special Kings (Denver market)

Distribution gained at all major wholesalers and distributors. Chains not accepting the product at this point are Safeway, King Soopers, and City Markets. We expect to achieve our goal of 80% within the first 6 weeks of the introduction.

Marlboro 5-Pack

Readily accepted by retailers and distributors as a recessionary measure to the high carton pricing. Concerns voiced by distributors include hand stamping box packings, confusion when ordering by the "carton", additional Marlboro slots needed, and future impact on full carton sales of Marlboro.

B. Full Margin

Marlboro Summer Special

Major accounts from all trade classes participated in this promotion. In some areas, however, benefits were short term as many customers returned to discounted products once the promotion ended. As POS was critical to the success of this program, sales personnel could have utilized additional banners and counter cards advertising the 2 or 3-pack special.

California Marlboro Big Bonus - 50 for 40

Large quantities expected to increase both volume and visibility. Concerns over the heavy Lights to Red mix by retailers. Hand stamping requirement was addressed at distributor level.

Marlboro Fresno Defense - \$5.00

This program was in reaction to the ongoing RJR offer of \$5.00-off Camel, Winston, and Salem in selected stores. This offer was limited to retailers participating in the RJR offer. Retailers purchased 400 to 2000 cartons of Marlboro. The increase in Marlboro sales slowed RJR volume to 50% during this time.

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K-MART (Detroit): The account feels that the price reduction on PV brands would cost them money. They have asked their distributors to conduct inventory checks so K-mart can invoice manufacturers for the price reduction. Shipments of Alpine, Cambridge, and Bucks to their stores were stopped for two weeks while this activity was being conducted. Section continues to work with National Accounts to develop a Retail Masters program at headquarters. Initially, PM would like to sign the account to Levels 1 and 2. They will not accept Basic.

A&P/FARMER JACK: Account delivered PM's recent Retail Masters proposal to RJR. RJR told the account that, by going with PM's program, the account would lose \$104,000 annually. It is possible that current fixtures can be re-merchandised so it A&P will not lose contract moneys from other manufacturers.

KROGER-LOUISVILLE: Because of limited fixture availability, PM has been unable to meet the Kroger's needs when it opens new stores or conducts resets of existing stores.

CHAMBER AND OWENS WHOLESALE (Chicago Section): Through the week of August 3, the account was billing accounts at the "old" Cambridge price. Their sales people were not communicating the new price to retailers.

V. SECTION/REGION EVENTS

PM's participation in the Three Rivers Regatta (Pittsburgh) resulted in an estimated 9,000-11,000 consumer contacts.

The Michigan Distributors and Vendors Association was attended by section management August 13-16. The event, which was attended by 70% of distributors in the Michigan area, proved to be an excellent "relationship-building" event.

Marlboro 500 (Detroit Section): Expenditures were reduced significantly this year by eliminating Friday night and Saturday morning activities and by adjusting catering services at the event. The race continued to be a premier customer-outing event.

Pan American Festival (Chicago): The event was attended by approximately 150,000 people. Sales at the Marlboro booth totaled 1,200 cartons.

VI. ORGANIZATION/PERSONNEL

Nothing new to report.

VII. MISCELLANEOUS

The Chicago section has experienced problems with PM Express regarding ordering and receiving products. These problems include:

- Marlboro Summer Special banners were ordered twice and not received.
- PM Express did not ship material until two days after their committed delivery date.
- Items which were received in the field did not show on PM Express' order reports.
- According to sales reps, the voice system is slow and frequently disconnects calls.

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REGION 3 MONTHLY HIGHLIGHTS AUGUST 1992

| I. <u>VOLUME</u> | <u>MONTH</u> | <u>YTD</u> | <u>% CHANGE YTD</u> |
|---------------------|--------------|------------|---------------------|
| Marlboro | 1000.1 | 13,176 | -1.9 |
| Full Margin | 436.0 | 5,158 | -6.1 |
| Price Value | 623.4 | 6,206 | 10.4 |
| Famous Value Brands | 420.4 | 2,649 | 100.0 |

II. PM USA BRANDS

A. New Products

B & H Special Kings - Wholesale acceptance of this brand has been going very well to date, with prebooking at retail currently in progress. The regular packing allocation on promotional product was too low, according to the majority of. wholesale accounts, with introductory support material very limited per sales representative. Noting some "wait and see" attitudes, with retailers taking small quantities of each packing in order to gauge the impact of negative comments from the *Wall Street Journal* article.

Marlboro Medium 100's - Noting excellent sales in pack outlets, with distribution nearing 96%. The national advertising campaign and the B1G1F and B3G3 offers have been a significant force in this movement. Some instances of out of stocks have been reported, however, the sales force is targeting this to insure total availability of this packing. Sales representatives report gains being made from Camel and Camel Lights consumers.

Marlboro 5 Pack- Reports indicate Marlboro 5 Pack is being positively accepted at retail. Prebooking is progressing very well, with Retail Masters accounts and targeted non-Retail Masters accounts acceptance being extremely high.

Noting mixed results with the wholesale accounts. The brand is being accepted, however, many feel we are simply doubling up on existing brand inventory. Also, the required hand stamping of the box packing could be a major factor if this brand does become a major player in the market.

B. Full Margin

Marlboro - Marlboro is gaining incremental sales at retail due, in most part, to the Marlboro Summer Special promotion. The POS developed to support this program has gained high visibility on Marlboro packings at a discounted price.

A few chain accounts are interested in this type program, however, have refused because of the perceived difficulty in monitoring unmarked promotional product at discounted prices.

Continuing to have logistical problems with the Summer Special due to the lack of scanning available to identify the special pricing. Special stickers have been made in some Sections to utilize this program.

Marlboro 5 Pk Party Lighter promotion is receiving rave reviews, with many instances of product being sold out as soon as the Party Lighter is placed.

Marlboro B1CtnG1/2CtnF promotion sold out in record time.

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3. Sales Force Activity

Section 31 reports B & W using part-timers to assemble *Raleigh Extra* 30-cents off packs---40 and 100 deals. Also utilizing a part-timer with each sales rep during buydown activities.

Sales Force is currently in Dallas for the introduction of their new brand *Savanna*.

4. New Products

GPC line extension - Full Flavor Kings and Lights Kings have new box packing. *Savanna* due for introduction within the next month.

5. Other - Nothing new to report.**C. AMERICAN****1. Promotions - Include:**

Bull Durham - 20-cents and 30-cents off packs; \$2.00 off cartons; B1G1F; T-Shirt free w/1 Pk.

Carlton - B1G1F; \$1.00 off 2 Pks.

Misty - B1G1F, Sleep Shirt free w/carton; 25-cents - 30-cents off packs.

Montclair - B1G1F, Lighter free w/2 Pks; 30-cents off packs;

2. Merchandising/Fixtures - Nothing new to report.**3. Sales Force Activity**

Part-timers being used to coupon *Montclair* at 25-cents off per pack at wholesale houses.

4. New Products

Riviera (6 menthol packings) is being promoted primarily against Newport and Kool consumers. Limited retail activity at this time.

Private Stock - introducing as a private label. Variety of displays available include 108 pack, 144 pack, 4-wide carton merchandiser, 40 carton shipper display and dump bins. Paying 25-cents per carton to wholesalers to sell-in.

5. Other - Nothing new to report.**D. LIGGETT & MYERS****1. Promotions - Include:**

Eve - \$3.00 to \$5.00 carton coupons.

Lark- B1G1F, \$4.00 to \$5.00 carton cpns; 2 cartons for \$10.99 reported in Kansas City.

Chesterfield Kings - Promoting this product as, "being the first tobacco with no stems in a generic price category".

2. Merchandising/Fixtures - Nothing new to report.**3. Sales Force Activity - Nothing new to report.****4. New Products - Nothing new to report.**

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2. Merchandising/Fixtures

Kansas City reports RJR is backing off commitments to match or exceed Retail Masters payments at the retail level.

New Orleans reports a slow down in RJR's ability to place both carton and overhead package fixtures. Recently the Section has had numerous requests from retailers and wholesalers for PM fixtures due to RJR's reluctant to place, in most instances, these are the medium to low volume accounts. However, they continue to attempt placement in higher volume outlets.

Oklahoma City notes an increase in new POS items including: Camel Clocks, Winston Ashcans, Winston Decals, Winston Clocks, Winston Select Thermometers.

3. Sales Force Activity

Section 31 reports RJR part-time reps continue to coupon packs of Doral from 25-cents to 45-cents. These employees are working up to 39 hours per week until the first of 1993.

4. New Products

The new *Vantage* foil pack has been placed at retail with graphics consisting of only the bull's eye on the pack, with the absence of the vertical lines from past Vantage packaging.

5. Other

Buy-down activities for RJR representatives have been made easier, due to the increase in denomination (\$5,000) on the flex checks.

B. BROWN & WILLIAMSON

1. Promotions include:

St. Louis reports B & W removed all coupons at retail, both pack and carton, on generics and sub-generics, offering the \$2.10 buydown to accounts reducing the retail price by that amount. If the retailer did not agree, the reps would not pay the account.

Kool - 50-cents to 75-cents off packs, B1G1F, \$4.00 carton coupons, Kool T-Shirt free w/2 Pks.

Capri - 50-cents off 1 PK; \$2.00 off cartons (100's only); Can Cooler free w/2 Pks.

Raleigh Extra - 25-cents pack coupons, \$2.50 carton coupons; Playing cards free w/1 Pk.

Richland - B1G1F; 40-cent pack coupons.

Viceroy - \$5.00 off cartons, on all available inventory; 40-cents and 50-cents off packs.

GPC - 40-cents and 50-cents off packs; \$3.00 to \$5.00 off cartons.

2. Merchandising/Fixtures

Section 32 reports they continue to purchase simple shelving from mass merchandisers to place generic products, especially GPC in select Drink Box accounts. B & W reps are beginning to use GPC sales to influence accounts to position this product, no longer accepting a third position from mega-volume accounts while allowing them to have buy-down product.

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Braxton Jones/Quik Trip (Ocala FL) - Retail Masters presentation is being made at end of September for low volume non-self service bucket.

K-Country (Belle Glade FL) has been signed to Retail Masters.

A & M Foods will sign with RJR effective October, 1992; PM will be removing OPM fixtures and all value centers. All PM product will be marked \$1 above all other competitive product to offset the merchandising payments which the account will be losing. PM products will continue to be merchandised on RJR carton fixtures.

Mapco Express (Port St. Lucie, FL) is currently being implemented with new Retail Masters fixtures. Top management from Tulsa Headquarters will be visiting the stores during the first few days of September.

Pace # 5 and Atlantic Tobacco have accepted the Marlboro 5 pack and the B&H Special Kings.

The Miami District has reported signing approximately 25% of their units to Retail Masters with one assignment reaching 50% of territory signed.

V. SECTION/REGION EVENTS

Black Expo held in Washington, DC was very successful. Though there were no samples of B&H Kings, consumers were made aware that this brand would be available in stores soon.

Customer Golf Tournament for Section 22 to be held in Charlotte on Monday October 19th - invitations have been extended.

Gwinnett County Fair (Section 24) has been staffed and incentive items received. Event to begin September 17th and run for 8 days.

Two Atlanta Falcons games have been played in the new Georgia Dome with excellent customer participation and added value for relationship building.

In Section 24 Dave Zaborski of Handy Way and Warren Jackson of Petrey Wholesale will be attending their golf instruction weekend October 8th through 11th, 1992.

UM Steve Bibby sold in 15,800 assorted cartons at the Certified Trade Show on August 22 - 23. The special co-op promotion was co-funded by PM at 40¢ per deal and emphasized Marlboro and the top 25 packings in Orlando in an effort to work with Wholesale Masters.

VI. ORGANIZATION/PERSONNEL

S/R's Donna Hart and Dale Cox as well as Retail Merchandiser Jim Chamberlain have resigned in Section 22.

Section 25 S/R's agree that the part-time Kelly help is time effective and helped to increase productivity during August. While Retail Masters was being presented by the S/R, the part-time person couponed, counted inventory for the ABC price reduction, counted inventory for the Marlboro Summer special, assembled promotions, placed temporary and permanent POS, set and filled BL's and BV's and changed the header cards in those displays to reflect the new price of sub-generics. Other part-time personnel were involved in the B1G1F assembly and the Marlboro 25's for 20 program. All S/R's report that it was still impossible to do it all, make the completed in-store mission, and make 8 calls per day.

VII. MISCELLANEOUS

Retail Masters: There is a need for low profile headers and extension poles for our new counter displays. Longer poles would give us better positioning at the cash register.

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In the Louisville section, 164 management accounts have accepted. Accounts pending include Walgreens, Shell Oil, Randalls, and Foodtown.

The 5-Pack is meeting resistance in pack outlets in the Chicago section because it creates a need for another price tier.

MARLBORO ULTRA LIGHTS - Efforts continue in the Louisville section to confine availability to the test market area. Richmond has eliminated availability to distributors who have sold product outside this area. However, because of high consumer demand, these distributors have found other means of procuring the product. As a result, retail distribution outside the test market is continuing.

B. Full Margin

MARLBORO - The Columbus, OH District estimates that an incremental 500K units will result from a B2G1F promotion that will run in pack outlets around the Ohio State campus.

Marlboro Summer Special: Feedback on this program is positive from both chain and independent accounts. POS items clearly announced the price reduction. Reported sales increases in the Chicago section range from 25-35%. Accounts would like to see similar promotions on Marlboro and other full margin brands. A suggestion for future programs would be to mark packs designated as sale product. This would ease the accounting problems in non-scanning outlets and prevent retailers from ending the sale prematurely.

C. Price Value

CAMBRIDGE - Doral is outselling Cambridge in the Columbus market 4 to 1 as a result of the price differential, constant Doral couponing, and \$3.50 VPRs. In response to this, the District plans to run multi-carton promotions in high-volume PV outlets using a \$3.50 coupon on revenue cartons and a free carton.

YTD volume in the Louisville section is down over 30%. PM's competitors have both higher coupon values and the ability to buy down. Retail price examples follow:

| | | | |
|-----------|---------|----------------|--------|
| Cambridge | \$10.86 | Doral | \$7.18 |
| | | Pyramid | \$6.99 |
| | | Montclair | \$8.80 |
| | | Raleigh Extra | \$8.80 |
| | | Magna/Sterling | \$7.18 |

BRISTOL - Sales in the Columbus area have not improved due to poor product visibility and a lack of couponing activity; \$3.50/40¢ coupons are recommended in metro stores. This would enable Bristol to compete with Sterling and Magna, as well as maintain parity with Cambridge and Doral.

YTD volume in the Louisville section is down 40%. There has been confusion resulting from new PV brand introductions and changing price points. Section management suggests promotions to create consumer trial and new POS to clearly call out the price .

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Mini Mart, Casper, WY (115 stores)

Signed M-1 Retail Masters contract for full participation.

Loaf 'N Jug, Pueblo, CO (69 stores)

Signed M-1 Retail Masters contract for full participation.

Total Petroleum, Denver, CO (620 stores)

Signed M-1 Retail Masters contract for full participation.

Hardy Enterprises, Bountiful, UT (39 stores)

Signed M-1 Retail Masters contract for full participation.

APSI Chevron, Pleasanton, CA (93 stores)

Accepted Retail Masters, M-1 and M-2, Level 2, in all stores. PM overheads to be placed at 70 new locations. PM Black & White distribution still pending.

Frontier Expeditors and Alaska Commercial Company (AK)

Have been purchased by Sealaska Native Corporation.

Albertson's (660 stores) (Seattle Section)

Has agreed to extend all existing contracts to their 58 liquor stores, bringing the total number of participating stores to 718.

Super America, Minneapolis, MN

Selling their stores in Montana, Wyoming, and eastern Washington, totaling 28 stores. Two Montana chains, Town Pump and Conoco, have submitted bids (decision pending 9/1/92).

7-Eleven, NW Division, (441 stores)

Will be offering Premium Buy, Basic, and GPC at 99¢ per pack to match Arco AM/PM. 7-Eleven NW is recommending Premium Buy to their franchise stores as a preference to other Black & Whites.

Payless Drug, NW (390 stores)

Agreed to continue to keep Basic as their primary Black & White brand.

Plaid Pantry (102 stores)

Has accepted Best Buy and Monarch. Best Value has been discontinued.

Paiute Indians, Las Vegas, NV

Actual June figures reveal 45,500 cartons per week average with PM share of sales dropping from 68% in May to 45% in June. This is due to competitive pricing on Monarch, \$7.65; Best Value, \$7.80; vs. AAV, \$8.10, and Best Buy at \$8.00. This represents a loss of 8,000 cartons during the month of June with RJR's share gaining from 14% to 32%.

McLane Western, Denver, CO

Having major difficulties regarding our shipper displays and product promotions, i.e., excessive incentive items not used and promotional product not stamped or delivered to accounts. We have been working very closely with McLane's management over the last several months to rectify this. Tom Kennard is aware of this problem and is endeavoring to correct the situation through Temple. The decision has been made not to use McLane for special shipped promotional product until we can be assured that this product will reach retail in the quantities we specify for our retail outlets.

A Letter of Intent has been signed with McLane Temple and Southland Corporate for McLane's acquisition of 5 Southland Distribution Centers effective 11/1/92.

2061590838

Section 22 reports that PM Express line numbers and code confusion causing problems for sales force on needed POS materials and promotional items.

Section 22 also reports that Masters signing in lower volume accounts meeting resistance due to requirement for more counter displays at a lower payment.

Eli Witt has not shipped PharMor any cigarettes for 3 weeks. OOS now prevalent in this account.

Big Star locations (Section 23) not ordering FVB packings to eliminate OOS. S/R Mike Cash has recommend a forceout to fill pack and carton racks.

Reported that PACE will open another location in the Buckhead area of Atlanta.

Section 23 currently showing 21.6% of total stores signed to Retail Masters according to SPACE. This is incorrectly reported according to manual reports that show upwards of 48.1% of volume signed. Problems with reporting by Reps and Richmond are not giving credit for work accomplished in this area. SOM Glen Knight sent out a letter to Section management on 8/31/92 informing them to have Reps input correct Masters info into the system so as to get credit for our efforts with Retail Masters. "The importance of updating information cannot be overstated."

Jacksonville City Ordinance which would virtually ban any and all alcohol and tobacco ads of any type now before advisory committee. This is a normal tactic of City Councilman Harry Reagan once he sees a proposed bill is in trouble. It totally amounts to delaying committee to see if opposition will die down. Next Advisory Committee meeting is on September 22, 1992.

Marlboro Summer Special has been moving full speed ahead in Section 25 and producing outstanding results.

S/R Barbara Dibble in Section 25 made arrangements to have 36 rolls of white 2" tape printed with Marlboro in red at 1" intervals. This tape will be used to wrap various POS items at Liss Warehouse with multipack or carton promotions. The initial cost is \$200/36 rolls, however \$125 of the cost is the reuseable plate with which the tape is printed. Hopefully, this will be an economic and attractive way to utilize some of our extra POS items. Completion for tape is scheduled for end of August.

Due to the many changes going on Section 25 Reps are just getting a feel for their new assignments. Progress being made, slowly, with the new Retail Masters program. They are finding out that it is time consuming to do it right and with the many directions going on at the same time, there is some confusion still with priorities. Another month of being in the new territories should bring less frustration and better results.

The Marlboro 3 for 3 that was slated for Winn Dixie has been placed. Product was sent to Eli Witt and became the task of PM to make the deliveries. Each deal was the size of a small refrigerator and weighed 90+ lbs. To keep the Reps in their assignments making calls, 4 RM's were utilized, RGP, and Kelly personnel. Also had some limited involvement with S/R's. This project took one week to make all deliveries and would have been a disaster without the RM's. The Reps could have transported 1 deal at a time and did not have the funds to handle the rapid placement of this deal. Also, stores were not able to properly scan the UPC codes and this had to be done by hand by the RM's in the store. In the future, suggest this type of deal needs to go to a distributor who can deliver the program to retail and also ensure that the UPC codes are correct. This deal was a good one and very popular without making adjustments on how it will get to retail.

Section 25 reports Pace #5 has an OOS situation on Marlboros. They claim they are having a problem keeping Marlboro on hand because DUSA is coming in and buying .

2061590822

B. Brown And Williamson

B&W reps in the Detroit area are focusing on full margin products. Field reports indicate that GPC couponing activity has ceased. Meanwhile, GPC is being bought down in Louisville to the lowest priced Black and White in the store. \$1.50 and \$2.00 couponing is continuing in Chicago.

Kool continues to be heavily promoted in Detroit urban accounts (B1G1F, FREE LIGHTER W/1 PACK PURCHASE). It is also being promoted at \$3 OFF in high-volume accounts in Minnesota.

Viceroy is being promoted in Illinois and rural Michigan accounts (B1G1F). It is also featuring small and large counter balances, wall poles, change mats, and ashtrays.

C. American

Private label brand "Prime" is being presented to distributors in the Cincinnati section. Since the generic price reduction, \$2 coupons are being placed on Montclair in the Chicago and Louisville sections. Consumers can also collect UPCs and exchange them for Montclair watches, wallets, or additional coupons. Retailers in the Louisville section report that the BUY 2 PACKS, GET FREE T-SHIRT promotion sold out quickly. \$4 coupons were placed in the Green Bay market for a two week period. In Sioux Falls SD, Montclair is being bought down to 69¢ in selected convenience stores (regular price is 99¢). Sales reps in this area report Montclair's increased sales have been at the expense of Bristol. Promotions on Carlton (\$1 OFF 2 PACKS, BUY 2 PACKS, GET LIGHTER) are running in the Detroit section in defense of Merit Ultima.

Private Stock, American's new private label brand, is being met with favorable reaction by retailers and consumers. It has a very low price point (ex. 89¢/\$7.95-Indiana, 59¢/\$5.99-Louisville) and is being introduced with offers at both retail and wholesale.

Riviera, American's new PV menthol brand, is beginning to appear at wholesale in the Minneapolis market. In Louisville, it is already being promoted at retail with B1G1F offers and \$2 coupons.

D. Liggett & Myers

Liggett is having telemarketers sell displays to retail accounts. Reps are following up these calls to place the displays.

\$4 coupons noted on Eve, L&M, Lark, and Chesterfield (Chicago section).

Pyramid is being bought down to 20¢ below Basic (\$7.59 vs. \$7.79) in the Cincinnati section. Distributors in Kentucky are selling 69¢ pack shippers (40 and 200 unit displays) and \$6.99 cartons. Distributors are receiving 25¢ per carton to assemble and sell this promotion. Lark and Pyramid continue to be reduced at wholesale (off invoice) for \$7 and \$5 off, respectively.

The Louisville section reports that Liggett will launch three packings of Chesterfield Filter in September. This full margin brand will be available in FF Kings, Light Kings, and Light 100s.

2061590832

E. Lorillard

A new brand, "Newport Slim Lights" (menthol 100s box) was introduced in August with a \$1 OFF PACK promotion (Cincinnati, Detroit, and Chicago sections).

Newport continues to promote in the Detroit section ("T&T Promotion"). Share has remained stable for the past 12 months. Other Newport offers include \$3 OFF CARTONS (Cincinnati) and FREE TANK TOP WITH 1 PACK PURCHASE (Louisville).

Three-carton displays featuring Newport, similar to PM's B&H displays, are being placed in the main terminal at O'Hare airport.

\$4 OFF coupons are being used in the Sioux Falls area.

IV. CUSTOMER DEVELOPMENT

KROGER-COLUMBUS (Cincinnati Section): Retail Masters-Full Participation signed. Trip planned to NYO with the Merchandising Manager and his assistant to see PM pack fixtures and promotional units.

BIG BEAR, Columbus OH: Sales is continuing attempts to sign the account to Retail Masters. Region 1 personnel have indicated that RJR offered this account a \$4 million deal for all divisions which included emphasis on the PV and private label categories. Eby Brown reports that Big Bear is still looking into Best Buy. A PM merchandising plan termination letter was hand-delivered to the account on August 21.

KROGER-CINCINNATI: Kroger will develop its own version of the computer aided ordering system originally developed by Unisys. By using this system, Kroger realized the following benefits:

- °Out-of-stocks reduced from 10-20 (avg.) per week to 1-2.
- °Back-room inventory reduced from 300 cartons (avg.) to 30.
- °Estimated \$80 million sales increase if adopted nationwide

PHAR-MOR (Pittsburgh district): Senior management is in control of all inventory decisions. Field reports show plan AV's removed and most BL's, BV's, and C's are either low or without product. Only certain suppliers are shipping to the account.

GIANT EAGLE (Pittsburgh): Retail Masters negotiations have been temporarily put on hold. The account's senior management is focusing on refinancing their market position with respect to Phar-Mor.

GARB-KO/7-ELEVEN (Detroit): Follow-up Retail Masters presentation made. Discussed contacting 7-Eleven stores regarding PM POS and counter displays. The account responded favorably to PM's recommendations and a decision is pending.

HOP-IN: (Detroit): Follow-up Retail Masters presentation made. The account wants to maintain RJR's program and at the same time maximize Retail Master's payments. The account could sign in near future with possible implementation of the plan in the fourth quarter.

2061590833

D. Famous Value Brands

In general, the various pricing actions by manufacturers have caused confusion on the part of retailers. Some accounts are recommending Doral to consumers because of the higher margins associated with the 50¢ carton price difference.

Elimination of the 50¢ and 85¢ program has put Best Buy at a disadvantage. Both GPC and Monarch are now priced lower in retail accounts in the Chicago section.

Sales of Basic in the Louisville section continue to grow (up 89% YTD). Buy-downs and couponing by competition is increasing in this area.

III. COMPETITIVE ACTIVITY**A. R.J. Reynolds**

WINSTON - Featuring \$3 coupons in high-volume carton outlets and \$1.50 OFF 3 PACKS in pack outlets. To improve sales of Select, RJR is repackaging B3G2F promotions to B1G1F (Detroit). Other promotions: BUY 4 PACKS GET FREE RACING T-SHIRT (Louisville), BUY 3 PACKS GET FREE SUNGLASSES (Chicago, Louisville).

DORAL - The recent price reduction is being supplemented by \$2.50 and \$3.50 OFF cartons at retail (25¢ and 30¢ on packs). Sales reps are opening old cartons and placing pack coupons saying "SAVE UP TO 51¢, DORAL ROLLS BACK PRICES" (Chicago section). Large quantities of B1G1F promotions have been seen in the Louisville section (Axton Tobacco in Louisville received 120 cases of promotional product). In a one-week period at a supermarket in the Columbus, OH area, Doral accounted for 17% of total volume while Cambridge accounted for only 1%. In the Detroit section, Doral is being priced the same as Cambridge. Wholesalers and retailers are realizing the difference as additional profit.

Vantage is introducing a new fresh wrap flavor pack on all packings and is using \$3 OFF carton coupons to move old inventory (Louisville section).

Monarch was accepted by the Dairy Mart convenience store chain and will retail for 99¢. It is being priced as low as 79¢ in the Detroit section. RJR is paying \$1.10 per carton to accounts who accepted the brand in July and will pay this through December.

RJR has placed a new brand called Pilot in a chain in Sioux Falls, SD. It is priced at 94¢, which is lower than Genco (99¢).

The Detroit section reports continued heavy promotional activity on all RJR full margin brands. Despite this, the only brand showing growth is Camel, up 0.39 points (Nielsen, 3MM). Share changes on other brands in this area: Winston -1.05pts., Salem -0.75pts, Vantage -0.29 (Nielsen, 3MM).

The 50¢ credit memo on Best Value and Monarch has been discontinued as of August 31. Instead, there will be a 50¢/carton off-invoice trade discount.

RJR is having a national meeting on September 10 to deliver their strategy on how to combat Retail Masters.

Green Bay, WI reports that, effective September 1, RJR reps will work nothing but full margin product.

RJR has mailed a letter to all retail accounts in the Chicago area alerting them to a possible "sting" operation regarding the purchase of tobacco by youths (see attached).

2061590831

C. Price Value

ABC Price Reduction

There is reluctance among some retailers to fully lower the retail selling price of this brand segment. Some distributors have yet to lower their prices due to delays in Richmond issuing them a credit.

In Indian accounts in Arizona and Paiutes in Las Vegas, Cambridge sales have eroded due to the recent price reduction on Doral. Their reduction was completed quickly and pricing had significant effect on sales.

D. Famous Value Brands

Best Buy

We have experienced circumstances where isolated Coremark Divisions have yet to pass along the full price discounts on Best Buy. An example of impact to business, Zip Trip, a 15-store convenience chain in Spokane, has recently taken Monarch due to its price benefits. This account was previously selling 3,000+ cartons of Best Buy per month.

Meeting held with Coremark to discuss Best Buy opportunities in the marketplace.

AAV/Basic

Distribution of Basic at Costco is in the initial phases of implementation.

In the Denver section, PM Black & White sales are being negatively affected by Monarch and Best Value since RJR is rebating \$1.15 per carton off-invoice. While we have been able to offset Basic at 85¢, we have been unable to use this discounting on AAV which has severely restricted our sales, especially in the Paiutes.

III. COMPETITIVE ACTIVITY

A. R. J. Reynolds

RJR is soliciting a program with Rowe Vending, largest operator in the Los Angeles area, for a Monarch test in 200 high travel locations. This direct vendor would buy Monarch for \$5.15 and receive \$1.60/ctn. merchandising allowance. Account must agree to place 2 to 4 columns of Monarch, place a super-sticker on each machine, and sell the pack for \$1.00. In larger locations, RJR will provide a machine/wall mount special 6-column machine free of charge.

In the San Francisco section, RJR continues their buy-down on Camel, Winston, and Salem from \$4.00 to \$6.00 per carton. Buy-downs are paid in cash or check on the spot. Some retailers are not passing all buy-down money to their customers.

In the San Francisco section, Newport clocks are being replaced in selected remodeled 7-Eleven stores by a "Joe Camel" clock.

RJR has dropped Best Value and is changing the brand name to Value & Quality with a new upscale label. All current rebates on Best Value will still apply to Value & Quality.

In the Los Angeles section, Winston, Salem, and Camel are offering 35¢-off promotion in response to our Summer Special Program in selected accounts. No impact on our program.

2061590836

Vons, Arcadia, CA (468 stores)

Signed to Retail Masters. Top 100 volume stores will participate in M-3 contract, MPL-1. We significantly improve our pack and carton position in this chain.

Lucky Stores, Buena Park, CA (213 stores)

Retail Masters signed as a full participant.

Price Company, San Diego, CA (63 stores)

Signed Retail Masters. Improvement of carton merchandising position. They accepted 5-pack which will be merchandised in line for resale and in a separate endcap for consumers. Signage to be determined.

Texaco, Universal City, CA (137 stores)

Signed M-1 contract at full participation requiring custom signage for all OPM's.

V. SECTION/REGION EVENTS

Fleming Food Show, Santa Clara, CA

During this 3-day show, July 29-31, we had the opportunity to gain visibility for Philip Morris and boost Marlboro sales for a total of 33,000 cartons sold. Customers received \$20 in Show Bucks and a Marlboro cooler with the purchase of a 100-carton deal (assorted Marlboro).

Hot August Nights - August 6-9

Impressions of this local Trade Marketing event are very favorable. The opportunity existed to market and promote Marlboro on the strength of this community event. In the northern Nevada portion of the Sacramento District, over 30,000 3-pack deals were utilized and sold leading up to the event. Suggestion to provide tie-in promotional products with the Hot August Nights logo would gain deeper penetration of accounts (projection triple the amount of sales).

Fred Meyer Challenge

Our participation was once again received very favorably by all customers. This has become the premiere event in the Portland market.

Marlboro Urban Visibility Program

In the Los Angeles section, conducting POS blitz targeting select areas throughout and awaiting competitive response. Initial feedback has been very positive. Marlboro has not had any new and effective POS in quite some time. We are focusing on the Visibility Program, spreading it out over the next two months.

VII. MISCELLANEOUS

Effective August 15, 1992, the state of Montana increased the tax on cigarettes and other tobacco products by 7%. The new tax is \$1.92 per carton, from \$1.80.

Sections are holding meetings on the Marlboro Adventure Team program.

Meyercord is notifying their accounts that special Marlboro 5-Pack Racing promotional packings should not be run through their machines, box or soft.

UM's received their Power Books (lap top computers). Reaction is very positive. Initial two-day training was intense, but more is needed. The training had no application to PM systems (Midas, Invoicing), and was limited to use of basic applications (E-Mail, Forms).

2061590839

B. Brown & Williamson

Capri offering B3G3F and other variations such as B3G2F with some success. Is having some impact on Virginia Slims.

GPC has lost visibility and sales in both Arco and Thrifty Oil. This is a result of our Retail Masters in Arco and RJR's success in Thrifty Oil.

C. American

In the San Francisco section, Riviera (6 menthol packings) is developing a consumer offer for a free pack with redemption of empty Newport and Kool packs.

The Seattle district reports placement of a new gray springloaded pack fixture which will also accommodate cartons. The unit is 3' wide and 5' tall. ATC pays retailers \$89.00 per month for placement.

Private Stock is beginning to show up at retail with special pricing which is far below FVB and RJR brands.

Retailer feedback indicates ATC sales reps are promoting our Retail Masters program. Reportedly, they are able to upgrade their locations at the expense of Reynolds and B&W.

D. Liggett & Myers

Nothing to report.

E. Lorillard

Continuation of cents and dollar-off coupons on Newport. Style is being promoted with fair success in a B1G1F. Without incentives, movement is very poor.

IV. CUSTOMER DEVELOPMENT

Costco Wholesale

Costco was signed to M-3, full participation, effective 7/1/92. They are in the process of setting up computers for scanning Basic.

Costco has accepted packings of Marlboro 5-Pack and will be merchandising the 5-Pack via a separate PM special merchandiser. Costco will be placing 2' x 4' signage over the cartons and the 5-Pack merchandiser. Costco will have an endcap pallet available for PM products.

USA Petroleum, Santa Monica, CA (99 stores)

Signed Retail Masters M-1 contract in 69 stores and M-2 contract in 30 stores, full participation. Will maintain Value Crest as their Black & White brand.

Thrifty Oil, Downey, CA (240 stores)

This account, which had rejected Retail Masters and accepted RJR program (\$1 million upon signing and an additional \$500,000 in 6 months), has filed Chapter 11.

2061590837